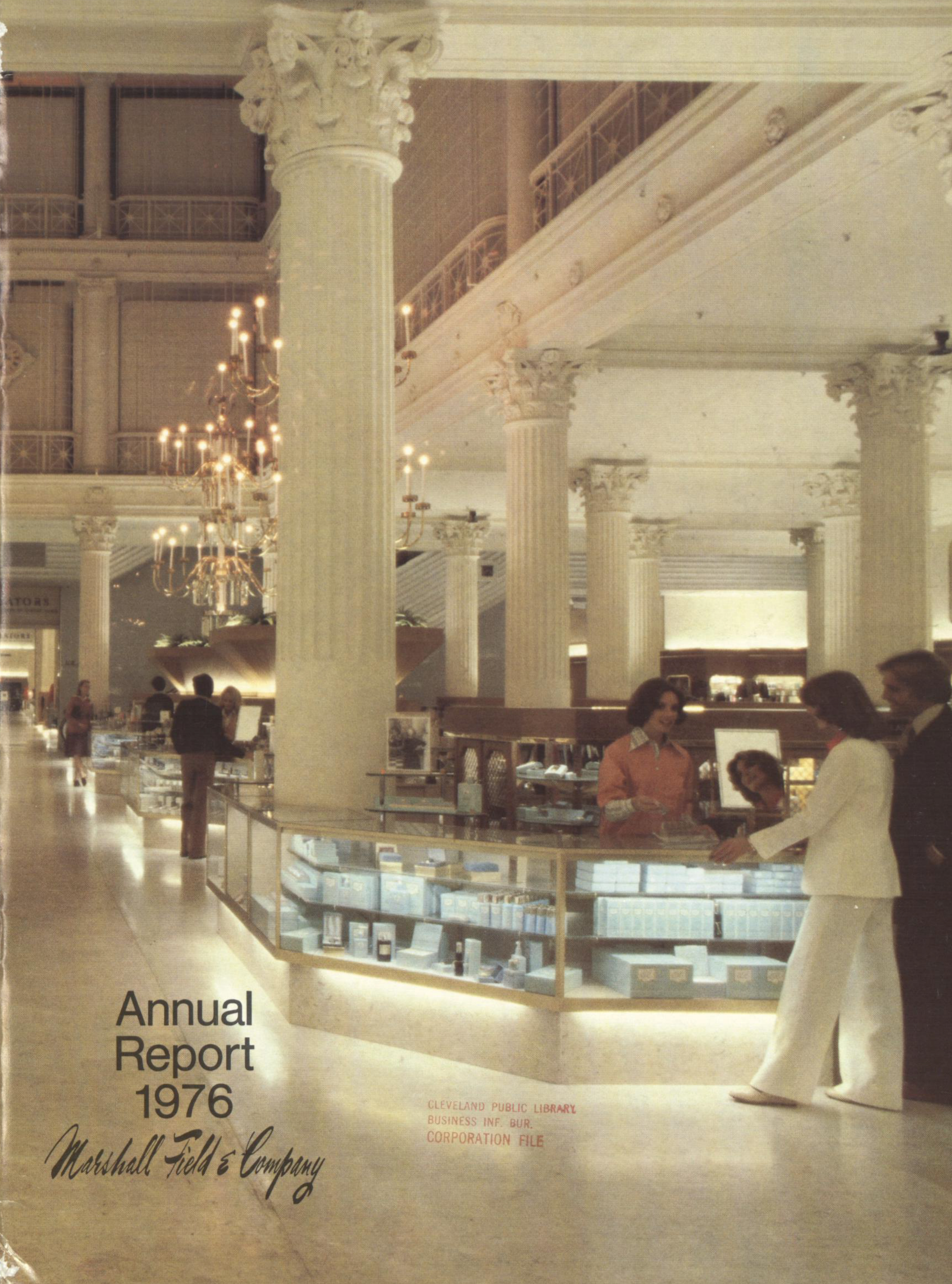

Annual Report 1976

Marshall Field & Company

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A complete renovation brings a new contemporary look to the traditional elegance of the main floor of the Company's world-famous State Street store, shown on the covers of this report. At left is a view of the entirely new cosmetics section, a feature of the first floor remodeling.

Marshall Field & Company

Annual Report to Stockholders

FOR THE YEAR ENDED JANUARY 31, 1977

FOUNDED IN 1852
CORPORATE OFFICES
TEL.: 312-236-7272

25 EAST WASHINGTON STREET

A DELAWARE CORPORATION
CHICAGO, ILLINOIS
60690

Financial Highlights
(in thousands of dollars)

	Fiscal Year 1976	Fiscal Year 1975
Net Sales	$609,924	$573,779
Income before Ventures, Land Sale and Income Taxes	29,421	39,925
Gain on Sale of Land	1,804	—
Net Income before Ventures	16,820	20,753
Net Income (Loss) from Ventures	1,379	(1,426)
Net Income	18,199	19,326
Per Common Share	2.01	2.13
Dividends Declared	11,271	11,277
Per Common Share	1.24	1.24
Net Income Retained	6,927	8,049
Accounts Receivable	94,761	90,524
Merchandise Inventories	92,753	87,640
Working Capital	116,954	105,986
Capital Expenditures— Modernization and Replacement	13,749	8,233
Expansion	1,698	15,004
Depreciation	9,877	8,880
Long-Term Debt	34,812	22,779
Common Stockholders' Equity	235,078	228,145
Per Common Share	25.96	25.20

Annual Meeting

The annual meeting of stockholders of the Company will be held Thursday, May 26, 1977, at 2:00 p.m. at The Ritz-Carlton hotel, 160 East Pearson Street, Chicago, Illinois. Formal notice of the meeting will be mailed with the proxy material to stockholders on or about April 22, 1977.

Form 10-K Available

Single copies of the Company's 1976 annual report on Form 10-K to be filed with the Securities and Exchange Commission, including financial statements and schedules, will be available, without charge, to any stockholder after May 2, 1977, upon written request to the Secretary of the Company at 25 East Washington Street, Chicago, Illinois 60690.

The President's Comments

Marshall Field & Company's most important advance last year was our further growth within the markets we serve.

I am pleased to report that the Company's sales for the fiscal year ended January 31, 1977 reached an all-time high of $609,924,000, a 6.3 per cent increase over the preceding year.

Our Frederick & Nelson stores in Seattle and The Crescent stores in Spokane had record sales and earnings last year. Expenses, however, rose more rapidly than sales in our Chicago and Cleveland divisions, reflecting the slower pace of economic recovery in the Midwest, continuing inflation in the costs of doing business, and the expenses of new stores. As a result, net income in 1976 was $18,199,000, or $2.01 per share. Earnings per share in 1975 were $2.13. Included in the 1976 net profit were non-recurring gains of 43 cents a share from real estate transactions, described in detail in the Financial Review that follows.

Throughout the year, our business activity closely paralleled that of the general economy. Sales in the first quarter surged as consumer confidence strengthened, moderated in the second and third quarters with the economic pause that occurred mid-year, and improved again in the fourth quarter, setting sales records during the holiday shopping season. Sales in January were adversely affected by the most severe winter in recent history. However, as we prepare this report, sales activity early in fiscal 1977 has been encouraging.

We undertook a number of activities last year to instill new vigor and impetus into our business. These activities included:

- The opening of a 200,000-square-foot shopping center store at Orland Square. This brings to five the number of new stores we have added to our major market within two and one-half years. All are in excellent locations and all are profitable.
- The completion of the first half of the State Street store main floor renovation. This multi-million dollar investment makes possible a more flexible merchandising presentation and is already providing improved sales in key areas. This program will be essentially completed this year.
- The addition of two new general merchandise managers and the appointment of a vice president, fashion director in the Chicago Stores Division. This enables us to expand and modernize our merchandising efforts and to attract more of the younger market.
- The continuation of a program to renovate our more mature outlying stores. This is designed to better equip them to serve today's customers.

Our store at Water Tower Place, where our subsidiary is a co-venturer, has enjoyed exceptional success. It had a 26 per cent sales increase last December over the same month a year ago and currently has the highest sales per total square footage of any of our stores. The vertical shopping mall at Water Tower Place is more than 80 per cent leased; the condominium residences there are 40 per cent sold; and The Ritz-Carlton hotel occupancy rates increased during the year with average room rates exceeding expectations.

In November, your Board of Directors elected two new directors, Jean Allard, partner in the law firm of Sonnenschein Carlin Nath & Rosenthal, and Arthur E. Osborne, senior vice president of the Company. In January, James E. Ryan, vice president and treasurer, was elected vice president-finance and treasurer. We are proud of the active role the Board has taken in providing management with an objective evaluation of the corporation's performance and that the audit committee is composed entirely of outside directors.

Marshall Field & Company is planning for greater growth and development over the next few years and we have the financial stability and resources to attain this goal. Our investment in people, merchandise and marketing capabilities gives your Company the greatest strength with which to meet the opportunities of the future. In fiscal 1977, we expect to achieve higher levels in both sales and earnings.

We approach retailing's changing environment with innovative ideas and programs appropriate to our traditions of quality, service and integrity. We are pursuing new opportunities for growth, including expansion in existing markets and penetration of new markets.

We recognize that our Company is a unique enterprise and we intend to maintain our reputation and to assert our leadership. We know who we are and where we are going.

We are thoughtfully and prudently positioning ourselves for greater growth and development. Building on our traditions, we are uniquely able to identify and to take advantage of new opportunities. Marshall Field & Company, after 125 years of accomplishment, is on the threshold of perhaps the most significant advances in its history.

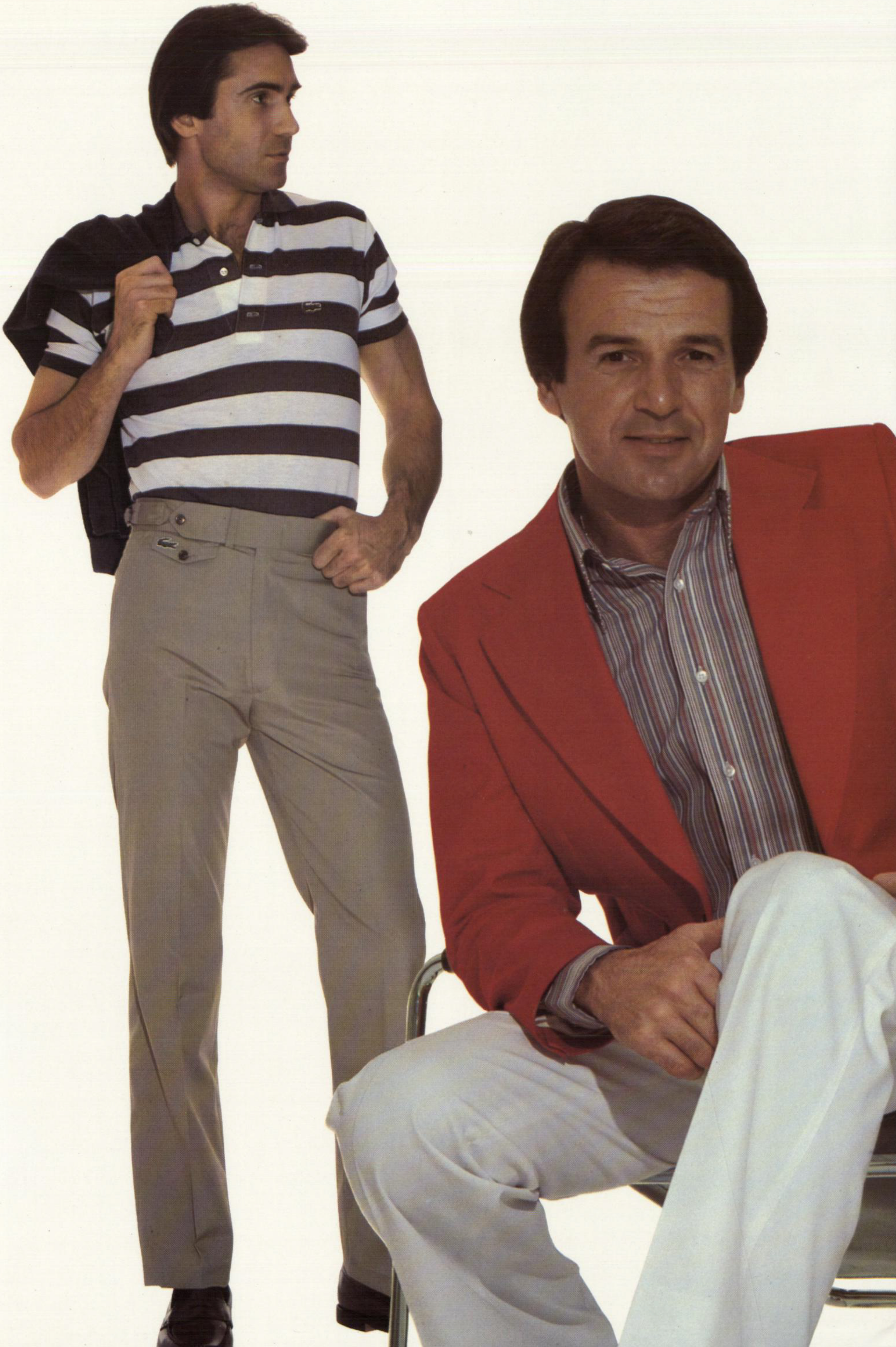
John Burnham

President

April 22, 1977

Beautiful accessories for the contemporary woman play a key part in the Marshall Field & Company fashion presentation. From elegant imported luggage to magnificent pendants and bracelets, from supple leathers in fashionable handbags, gloves, briefcases to vivid scarves from designers Halston, Givenchy, and Anne Klein—all to add just the individual touch, the perfect accent. Shown here is but a sampling of the many distinctive accessories for today's fashion looks.

Fashion leadership at Marshall Field & Company is evident in the Zandra Rhodes boutiques opened last year in Chicago's State Street store and at Water Tower Place (above), showcases for the unique creations of this innovative young British designer. At right is the spirited country look by Ralph Lauren. The work of another brilliant new designer, Charles Suppon, is shown far right. His first collection was given a premiere presentation this spring by Marshall Field & Company, again in our tradition of introducing the new, the different, the dramatic and the important fashions first.



The finest for men will also be found at Marshall Field & Company. Last fall the Store for Men opened two shops, on State Street and at Water Tower Place, featuring distinctive British menswear by Aquascutum of London. Shown above an Aquascutum suit and raincoat. At left are illustrations of the colorful, casual clothes from our selections for men. Also included in the Store for Men's leadership presentation are a number of new designer collections.

Fashions for the home are illustrated here in the distinctive grandfather clock admired by the two young people above, and, at right, the elegant brown lacquer panels with chinoiserie, the Nain rug, the Louis XVI bronze globe oil lamp, the Directoire chair. The antique tambour secretary is from our collection of American antiques and the silver accessories are from antique silver. All are from selections that have for 125 years made Marshall Field & Company's name synonymous with distinctive merchandise.

Real Estate and Hotel Investments

The principal investments of Mafco, Inc., a wholly-owned subsidiary of the Company, are one-half interests in joint ventures owning Water Tower Place and The Ritz-Carlton hotel. Water Tower Place is a unique multi-use urban center of 74 floors on Chicago's North Michigan Avenue. It includes a vertical shopping mall, offices, the hotel and luxury condominium apartments.

The retail mall of 600,000 square feet, which opened in the fall of 1975, contains the Company's 170,000-square-foot store. The mall is over 80 per cent leased, new tenants continue to open in this seven floor vertical shopping center, and the stores are producing a high level of sales per square foot. About 70 per cent of the 200,000 square feet of office space is leased or under commitment.

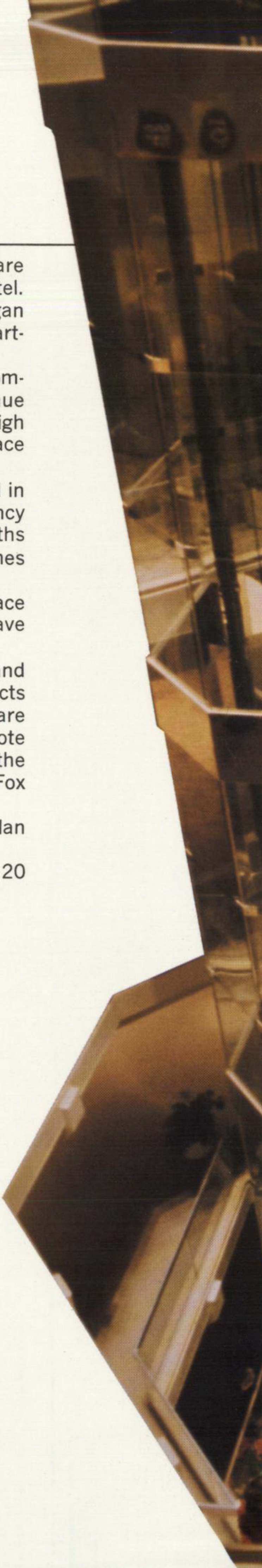
Water Tower Place leases 22 floors to The Ritz-Carlton joint venture. The hotel opened in December 1975 and already is recognized as one of the finest in the world. Its occupancy rate increased from 48 per cent in the first half of 1976 to 59 per cent in the last six months of the year. Further increases in occupancy are expected as this outstanding hotel becomes even more widely known.

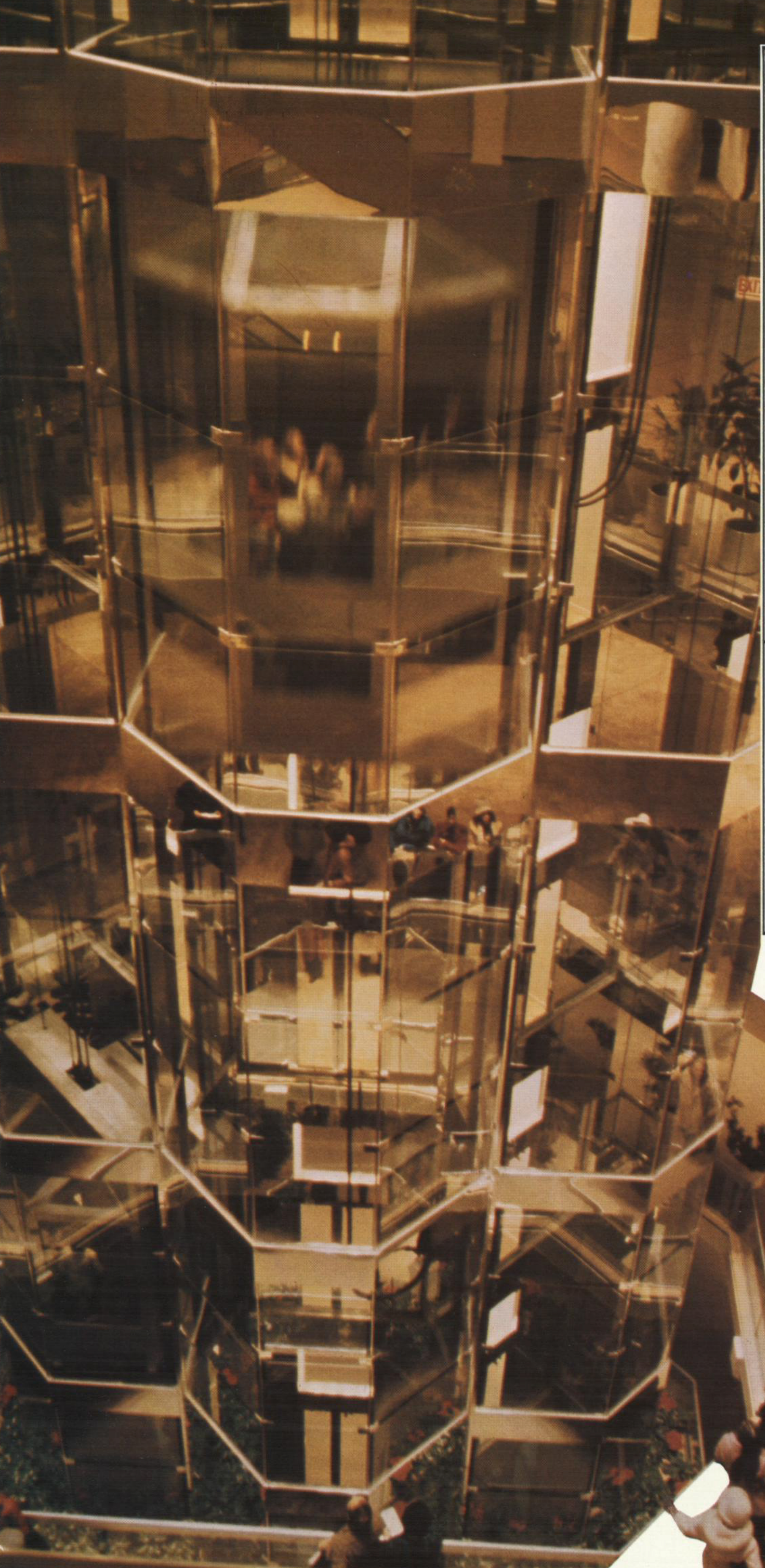
Construction of 260 condominium apartments in the top 40 floors of Water Tower Place was substantially completed in 1976. About 40 per cent of these prestigious apartments have been sold, and 70 condominium owners are presently in residence.

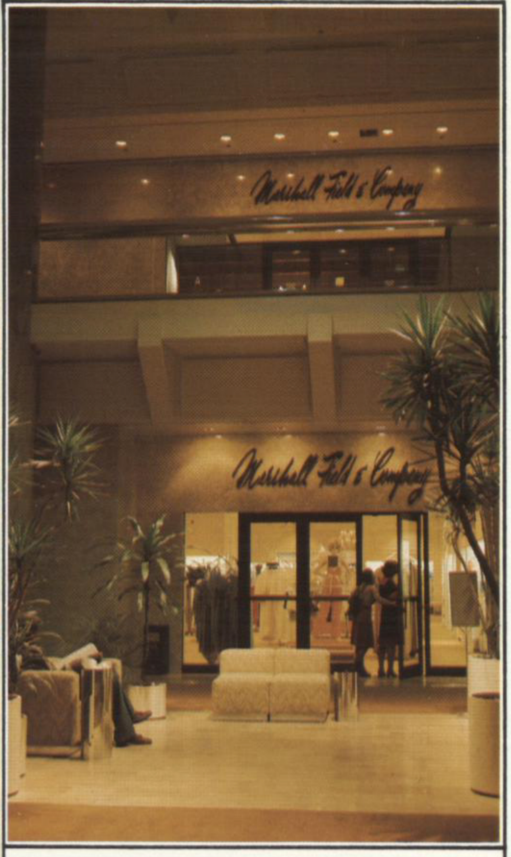
In December 1976 Mafco sold its interests as a co-venturer in the Hawthorn Center and Orland Square shopping centers and in three complementary land development projects adjoining those two centers and the Fox Valley shopping center. All of these projects are located in suburban Chicago. These interests were sold to enable the Company to devote more of its resources to its principal business of retailing. The sale in no way affects the Company's ownership and operation of its stores in the Hawthorn, Orland Square and Fox Valley shopping centers.

Mafco continues as a part-owner of vacant land in Bloomingdale, Ill., but does not plan to participate in development of that property.

Further information on Mafco's real estate and hotel investments appears on page 20 and in note 4 to the financial statements starting on page 28.






Marshall Field & Company
Marshall Field & Company

A mall level entrance to our Water Tower Place store is shown above and, at left, the soaring glass-enclosed elevators that serve the atrium shopping mall.

Ten Year Summary

(in thousands of dollars)

Fiscal Year	1976	1975	1974
Operating Results			
Net Sales	$609,924	$573,779	$547,600
Gross Margin after Cost of Sales and Buying and Occupancy Expenses	174,260	168,302	159,743
Selling, General and Administrative Expenses	142,643	127,797	120,452
Interest Expense	2,233	1,516	1,579
Interest Income	(25)	(217)	(315)
Interest Capitalized	(12)	(719)	(1,318)
Income before Ventures and Income Taxes	31,225 (1)	39,925	39,346
Per cent of Sales	5.1	7.0	7.2
Income Taxes before Ventures	14,405	19,172	19,043
Net Income before Ventures	16,820	20,753	20,303
Net Income (Loss) from Ventures	1,379 (2)	(1,426) (3)	7
Net Income	18,199	19,326	20,310
Per cent of Sales	3.0	3.4	3.7
Preferred Dividend Requirement	44	50	65
Net Income Applicable to Common Stock	18,154	19,276	20,246
Per Common Share (7)	2.01	2.13	2.24
Common Dividends Declared	11,227	11,227	11,227
Per Common Share (7)	1.24	1.24	1.24
Net Income Retained	6,927	8,049	9,019
Average Number of Common Shares Outstanding (in thousands) (7)	9,054	9,054	9,054
Capital Expenditures—			
Modernization and Replacement	13,749	8,233	5,872
Expansion	1,698	15,004	13,122
Total	15,447	23,237	18,994
Depreciation	9,877	8,880	7,563
Financial Position			
Accounts Receivable	$ 94,761	$ 90,524	$ 85,775
Merchandise Inventories	92,753	87,640	83,805
Working Capital	116,954	105,986	109,462
Net Property and Equipment	151,493	146,373	132,568
Long-Term Debt	34,812	22,779	23,735
Common Stockholders' Equity	235,078	228,145	220,077
Per Common Share (7)	25.96	25.20	24.31
Stores (end of year)			
Number of Stores	31	30	28
Total Store Area (in thousands of square feet)	8,604	8,404	7,984

Notes:

(1) Includes $1,804,000 gain on sale of land equal to $1,228,000 after taxes, or 14 cents per share.

(2) Includes a net gain of $2,653,000 on sale of interests in ventures equal to 29 cents per share.

(3) Includes a charge of $1,012,000, or 11 cents per share, to reduce to estimated realizable value the investment in a venture interest sold in 1976.

(4) 1974 reflects adoption of the last-in, first-out method for substantially all inventories not previously valued under this method. This accounting change had the effect of decreasing net income for 1974 by $1,173,000, or 13 cents per share.

1973	1972	1971	1970	1969	1968	1967
$521,908	$492,794	$466,689	$401,883	$402,507	$386,287	$371,025
153,015	147,337	137,416	118,357	120,611	114,968	109,399
112,927	105,298	99,440	86,414	83,972	79,618	75,617
1,390	1,377	1,664	1,146	933	904	953
(955)	(311)	(183)	(1,090)	(1,299)	(809)	(500)
(907)	(589)	(556)	(282)	—	—	—
40,560	41,563	37,052	32,168	37,005	35,255	33,329
7.8	8.4	7.9	8.0	9.2	9.1	9.0
19,658	20,106	18,000	16,089	19,448	18,007	15,653
20,902	21,457	19,052	16,079	17,557	17,248	17,676
—	—	—	—	—	—	—
20,902	21,457	19,052	16,079	17,557	17,248	17,676
4.0	4.4	4.1	4.0	4.4	4.5	4.8
78	96	108	19	—	—	—
20,824	21,362	18,944	16,060	17,557	17,248	17,676
2.30	2.34	2.08	1.82	2.01	1.97	2.01
11,096	10,399	10,034	9,718	9,533	8,484	8,441
1.22½	1.14	1.10	1.10	1.10	1.00	1.00
9,728	10,963	8,909	6,333	8,024	8,763	9,235
9,069	9,122	9,122	8,805	8,752	8,776	8,774
4,656	3,910	2,949	3,587	3,116	3,658	3,647
13,324	3,841	10,124	6,208	2,828	7,059	5,730
17,980	7,751	13,073	9,795	5,944	10,717	9,377
6,781	6,588	6,183	6,070	5,923	5,833	5,639
$ 84,121	$ 77,835	$ 78,423	$ 81,859	$ 63,963	$ 60,699	$ 56,867
83,932	82,099	77,751	73,732	65,632	61,218	59,699
109,595	113,425	102,555	104,211	101,826	94,307	90,490
121,929	111,342	112,029	105,788	92,119	92,119	87,806
24,956	26,437	28,138	29,911	23,500	23,600	23,700
211,040	203,195	192,202	183,257	170,445	162,826	154,596
23.31	22.27	21.07	20.09	19.51	18.61	17.59
28	26	26	25	15	15	14
7,917	7,490	7,490	7,131	5,657	5,657	5,442

(5) Operating results include The Halle Brothers Company beginning with December 1970 under purchase accounting. Financial position and store statistics at the end of 1970 and subsequent years reflect the Halle merger.

(6) 1968 and prior years have been restated to include The Crescent under pooling of interests accounting.

(7) Adjusted to reflect two-for-one stock split effective May 14, 1969.

Financial Review

The Ten Year Summary, on the two preceding pages, provides a review of financial information on your Company and the Financial Statements with accompanying Notes, beginning on page 22, present the Company's operating results and financial position. A discussion and analysis of results of operations, finances and other relevant matters follow.

Operating Results

Net income in 1976 was $18,199,000, equal to $2.01 per share, a decrease of 5.8 per cent from the prior year. Earnings per share were $2.13 in 1975 and $2.24 in 1974. Net income per share before joint ventures and real estate sales was $1.72 in 1976 compared with $2.29 the prior year.

Several unusual items affected 1976 earnings. Net income per share included a gain of 29 cents from the sale of the interests of the Company's subsidiary, Mafco, Inc., in four real estate ventures and a gain of 14 cents from sale of land adjoining the Oakbrook shopping center. Earnings were reduced 11 cents by Mafco's share of the losses of The Ritz-Carlton during its start-up year at Water Tower Place.

In 1975 net income was charged 11 cents per share to reduce to estimated realizable value the investment in New Century Town, one of the joint venture interests sold in 1976.

Sales rose 6.3 per cent in 1976 to a record level. Unit volume was slightly higher than the previous year. Branch stores produced 61 per cent of 1976 sales.

Operating results for the past three years have been influenced by a number of factors. As planned, the Company's competitive position in the key Chicago market has been strengthened by opening five new stores in a period of only two and one-half years from the fall of 1973 to early 1976. All of these new stores are in excellent locations and are profitable. However, this investment in the future has had a short-term adverse effect on earnings because some of the sales of the new units come from older stores without a corresponding reduction in their expenses. Although these new stores are not yet as profitable as older stores, they provide an important base for your Company's long-term growth.

Results for 1976 also reflected the uneven pace of recovery from the recession evident in our business from October 1974 to May 1975. Recovery since the latter date has been gradual and the pace of improvement slowed beginning in May 1976. Of particular significance to your Company has been the continued slower rate of recovery in the Midwest, where the Chicago Stores and Halle divisions are located. Both Chicago and Cleveland have a heavy concentration of capital goods manufacturing, which has lagged behind the rest of the economy. Recovery of capital spending expected this year should benefit your Company's operations in these markets. The record cold weather in the Midwest during January 1977 also had an adverse effect on sales for the last month of our fiscal year 1976. The Frederick & Nelson and Crescent divisions, both in the Northwest, had record operating profits last year.

In the face of these unusual conditions, expenses and inventories were closely controlled throughout 1976. The number of employes was maintained at the same level as the prior year with the addition only of those necessary to staff new stores.

Gross margin after buying and occupancy expenses was 28.6 per cent of sales in 1976, compared with 29.3 per cent in 1975 and 29.2 per cent in 1974. The lower rate for 1976 primarily resulted from higher buying and occupancy costs. Such cost increases for 1976 and 1975 included higher depreciation, largely attributable to new stores and modernization of older units. 1976 also included higher real estate taxes and maintenance and repairs, reflecting inflation and new units. Rentals increased during the past two years as new stores were added.

Selling, general and administrative expenses increased at a faster rate than sales in the past two years, reflecting the slower pace of economic recovery in the Midwest, continuing inflation in the costs of doing business, and the expenses of new stores. Payroll taxes, retirement plan costs, and postage are examples of the types of expenses which rose substantially in 1976. Advertising increased in each of the last two years, reflecting additional promotion and higher rates.

Interest expense increased $718,000 in 1976, as the result of greater borrowing, although the total was offset to some extent by lower interest rates. Interest capitalized decreased

$707,000 in 1976 and $599,000 in 1975. Virtually no interest was capitalized in 1976 due to the opening of Water Tower Place. The reduction in 1975 reflected lower interest rates and our policy of limiting such capitalization to amounts estimated to be realizable. Capitalization of interest is explained in note 1h, page 27.

Credit

As a convenience to customers, the Company offers several different credit plans. They vary somewhat in each market area, according to competitive conditions and state legal requirements. In general, customers may pay within 30 days or in monthly installments.

Credit sales were 65 per cent of total business for 1976. Installment sales were 36 per cent of total credit volume. Credit losses were .3 per cent of last year's credit sales. Collection rates were excellent again during 1976.

Dividends

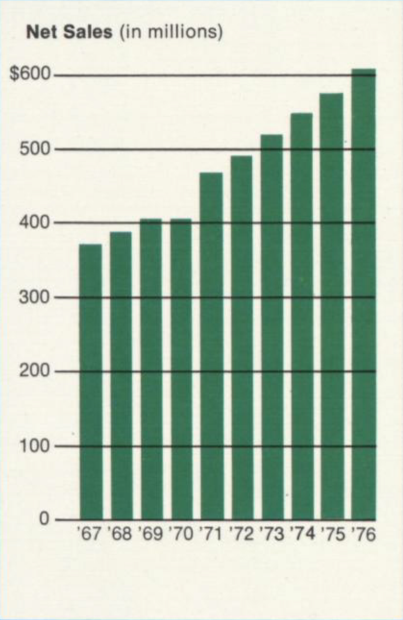
Dividends of $1.24 per common share provided a yield of 6.5 per cent to stockholders based on the stock price at mid-March 1977. In determining the amount of dividends to be declared, the Board of Directors considers both earnings and the Company's strong financial position.

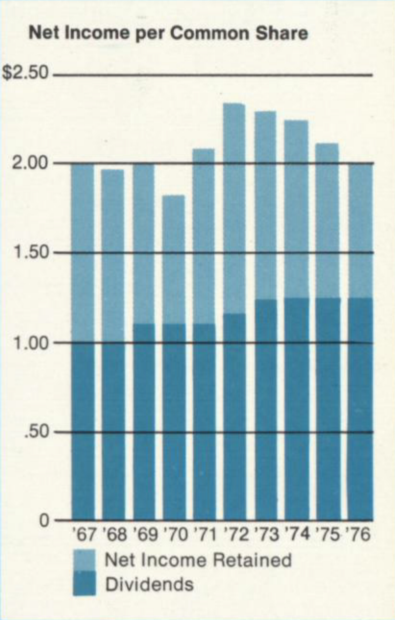
Finances

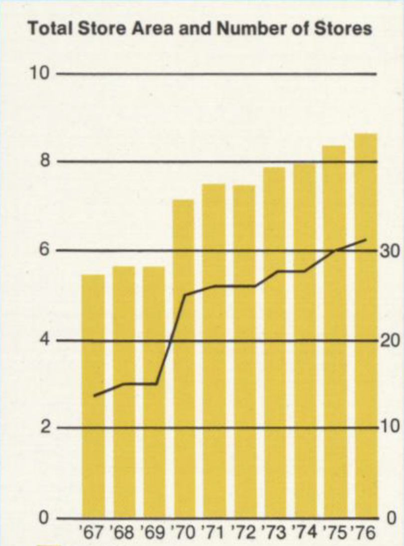
In January 1977 the Company entered into a seven-year, $40,000,000 credit agreement with a group of banks. This agreement provides a revolving credit arrangement at the prime rate for three years, at the end of which time a maximum of $40,000,000 may be borrowed under a four-year term loan at one-half per cent over the prime rate. This provides maximum flexibility to meet the Company's financing needs for the next seven years. Additional information on the terms appears in note 3, page 28.

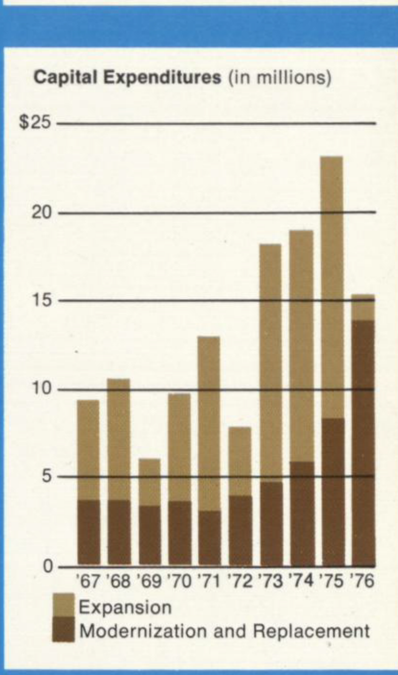
Commercial paper continued to be used during 1976 to meet working capital needs. The maximum outstanding was about $41,000,000, of which $15,265,000 was outstanding at year-end. $13,000,000 of the latter amount was classified as long-term, since the Company plans to continue using at least this much commercial paper for an uninterrupted period of more than one year, and this financing is supported by the $40,000,000 seven-year bank agreement described above. The commercial paper also is backed by the Company's general credit and by $15,000,000 of bank lines of credit.

FINANCIAL CHARTS


Net Sales (in millions)


Net Income per Common Share


Total Store Area and Number of Stores


Capital Expenditures (in millions)

Inventories were $92,753,000, 5.8 per cent greater than a year earlier. This increase is attributable in part to the new store at Orland Square, which opened in March 1976.

Capital Expenditures

Expenditures were $15,447,000, of which $1,698,000 was spent for expansion, reflecting completion of the Orland Square store. The remaining $13,749,000 includes the second phase of modernizing the first floor of the State Street store, remodeling the Old Orchard, Oakbrook and Halle's Westgate stores, and continued installation of electronic sales registers in units of the Chicago Stores Division. Outlays for 1977 are estimated at $14,000,000. Major projects will be modernization of additional first floor areas in the State Street store, completion of the Oakbrook and Westgate renovation, and the first phase of electronic register installation in the Frederick & Nelson Division.

Investments in Real Estate and Hotel

In December 1976, Mafco, Inc., the Company's real estate subsidiary, sold its interest in four real estate joint ventures to a co-venturer. Mafco received cash of $5,941,000, resulting in a gain after taxes of $2,653,000, or 29 cents per share. The co-venturer has assumed all liabilities of the four ventures.

Excluding this sale, the loss before taxes from real estate ventures and hotel venture was $2,539,000 in 1976. The largest part consisted of $2,011,000 from Mafco's one-half interest in The Ritz-Carlton during its start-up year. The balance represented Mafco's one-half interest in the operations of Water Tower Place and its share of the losses of the joint venture interests sold in December 1976. The Water Tower Place operating loss included the results of the rental of the retail and office space in the building for the last two months of 1976. Prior operating losses were deferred during the initial year of operation in accordance with the accounting policy of the venture during its start-up period.

Mafco's one-half interest in a full year's results for Water Tower Place retail and office space will be reflected in the Company's 1977 earnings. While this commercial operation will show a larger loss in the year 1977 than it did in the last two months of 1976, this is expected to be offset fully or in part by a reduction in the loss on The Ritz-Carlton as the hotel moves toward profitability. Both Water Tower Place and The Ritz-Carlton are long-term investments. The Company anticipated initial losses in new projects of this type, but they are expected to contribute to the Company's earnings in future years as occupancy of commercial and hotel facilities increases and start-up costs end.

In 1975 the loss from real estate ventures was $2,743,000 before taxes, including $1,946,000 to reduce investment in New Century Town to estimated realizable value. Most of the rest of the loss was Mafco's share of the 1975 operating loss of Hawthorn Center. New Century Town and Hawthorn Center are two of the four real estate joint ventures in which Mafco sold its interest in December 1976.

As planned, new financing replaced a $130,000,000 construction loan at Water Tower Place in November 1976. A long-term mortgage of $93,500,000 was funded at an 8½ per cent interest rate. In addition, $37,500,000 was borrowed under a bank loan to provide interim financing while the proceeds of condominium sales continue to be received. Also, Mafco and its co-venturer have each arranged stand-by financing for up to $15,000,000 to be used if needed to repay any balance on the interim loan at its maturity in May 1978. Any borrowing by Mafco under its stand-by financing will be repaid fully or in part with its share of condominium proceeds, with any unpaid balance being due in November 1980. These new arrangements provide sound financing for Water Tower Place.

Further information on Mafco's investments in real estate and The Ritz-Carlton appears on page 14 and in Note 4 to the financial statements beginning on page 28.

Administrative Changes

In the corporate organization, Miss Mary Celeste Higgins and Mr. Herbert W. Nichols were named Assistant Secretaries. In the Chicago Stores Division, Mr. Robert I. Mullen was appointed Vice President, General Merchandise Manager; Mr. Jerry M. Socol was appointed Vice President, General Merchandise Manager; Mr. W. Kenneth MacArtney was appointed Vice President, Merchandising, Home Furnishings; and Miss Genevieve Urbain was appointed Vice President, Fashion Director.

Quarterly Data

Sales and Net Income
(in thousands of dollars)

Net Sales

Quarter	1976	1975	Per Cent Change
1st	$124,366	$111,905	11.1
2nd	134,287	127,872	5.0
3rd	152,014	145,367	4.6
4th	199,257	188,635	5.6
Year	$609,924	$573,779	6.3

Net Income

	1976		1975	
Quarter	Amount	Per Share	Amount	Per Share
1st	$ 180	$ .02	$ 637	$ .07
2nd	1,347	.15	3,347	.37
3rd	4,190	.46	5,226	.58
4th	12,481	1.38(1)	10,116	1.12(2)
Year	$18,199	$2.01	$19,326	$2.13

(1) Includes gain on sale of interests in ventures of $2,653,000, or 29 cents per share (note 4, pages 28-31), and gain on sale of land of $1,228,000, or 14 cents per share.

(2) Reflects an unusual charge of $1,012,000, or 11 cents per share, for a real estate venture (note 4, pages 28-31).

Dividends and Stock Prices per Share

The common stock is traded on the New York and Midwest Stock Exchanges.

Dividends Paid

A dividend of 31 cents per share was paid in each quarter of 1976 and 1975.

Market Price

	1976		1975	
Quarter	High	Low	High	Low
1st	$24½	$19¾	$26⅜	$19¼
2nd	21⅞	16½	25¼	19⅞
3rd	20¼	16⅝	23⅞	18½
4th	23¾	18¼	25⅞	22

Store Directory

The principal business of the Company and its subsidiaries is the operation of quality department stores. In the last two fiscal years, none of the merchandise or services classified by the Company as similar accounted for as much as 10 per cent of consolidated net sales.

CHICAGO STORES

State Street Store
2,225,000 square feet

CherryVale
115,000 square feet

Evanston
114,000 square feet

Fox Valley
250,000 square feet

Hawthorn Center
259,000 square feet

Lake Forest
16,000 square feet

Mayfair
290,000 square feet

Oakbrook
375,000 square feet

Oak Park
124,000 square feet

Old Orchard
445,000 square feet

Orland Square
200,000 square feet

Park Forest
116,000 square feet

River Oaks
264,000 square feet

Water Tower Place
170,000 square feet

Woodfield
355,000 square feet

COMMERCIAL FURNISHINGS

Contract Sales Divisions
Chicago
Cleveland
Seattle
Spokane

FREDERICK & NELSON

Downtown Seattle Store
746,000 square feet

Aurora Village
150,000 square feet

Bellevue Square
158,000 square feet

Southcenter
175,000 square feet

HALLE'S

Downtown Cleveland Store
606,000 square feet

Belden Village
52,000 square feet

Millcreek Mall
90,000 square feet

Severance
168,000 square feet

Shaker Square
34,000 square feet

Southland
148,000 square feet

Summit Mall
111,000 square feet

West Erie Plaza
34,000 square feet

Westgate
194,000 square feet

THE CRESCENT

Downtown Spokane Store
425,000 square feet

Northtown
91,000 square feet

University City
104,000 square feet

Consolidated Statement of Income and Retained Earnings

	Fiscal Year Ended	
	January 31, 1977	**January 31, 1976**
Net Sales	$609,923,734	$573,778,899
Deduct:		
Cost of goods sold and expenses, exclusive of items listed below	$513,677,584	$477,265,792
Advertising	21,340,219	18,536,520
Taxes other than income taxes	20,079,134	17,327,931
Depreciation (note 1c)	9,877,396	8,880,462
Maintenance and repairs (note 1c)	7,520,337	6,597,557
Rentals paid (note 5)	5,812,079	4,665,866
Interest expense	2,233,270	1,515,760
Interest income	(25,324)	(216,777)
Interest capitalized (notes 1a and 1h)	(11,607)	(718,761)
Total costs (note 2)	$580,503,088	$533,854,350
Income before Ventures, Land Sale and Income Taxes	$ 29,420,646	$ 39,924,549
Gain on sale of land	1,803,988	—
Income before Ventures and Income Taxes	$ 31,224,634	$ 39,924,549
Income taxes (note 1d)	14,405,000	19,172,000
Net Income before Ventures	$ 16,819,634	$ 20,752,549
Loss from real estate ventures and hotel venture (note 4)	$ (2,539,490)	$ (2,743,275)
Gain on sale of interests in ventures (note 4)	2,943,432	—
Income (Loss) from Ventures, before Income Taxes	$ 403,942	$ (2,743,275)
Income taxes (note 1d)	(975,000)	(1,317,000)
Net Income (Loss) from Ventures	$ 1,378,942	$ (1,426,275)
Net Income	$ 18,198,576	$ 19,326,274
Retained Earnings at beginning of year	192,494,694	184,445,384
	$210,693,270	$203,771,658
Cash dividends declared on:		
Cumulative preferred stock—		
Series A, $2.40 per share	$ 22,505	$ 26,128
Series B, $3.00 per share	21,900	24,075
Common stock—$1.24 per share in both years	11,227,041	11,226,761
	$ 11,271,446	$ 11,276,964
Retained Earnings at end of year (note 3)	$199,421,824	$192,494,694
Net Income per Common Share (average shares outstanding 9,054,065 and 9,053,767, respectively)	$ 2.01	$ 2.13

See notes to financial statements on pages 26 through 33.

Consolidated Statement of Changes in Financial Position

	Fiscal Year Ended	
	January 31, 1977	January 31, 1976
Working Capital Provided:		
Net income	$ 18,198,576	$ 19,326,274
Add items not requiring the use of working capital—		
Depreciation	9,877,396	8,880,462
Increase in long-term deferred income taxes and investment credit	3,382,108	6,652,595
Working capital provided from operations	$ 31,458,080	$ 34,859,331
Additional long-term debt (note 6)	13,000,000	—
Sales of land and buildings	21,566	46,157
Sale of interests in real estate ventures	2,997,090	—
Other	427,130	512,371
	$ 47,903,866	$ 35,417,859

	January 31, 1977	January 31, 1976
Working Capital Used:		
Additions to property and equipment	$ 15,446,759	$ 23,237,118
Investments in real estate ventures and hotel venture	9,145,438	3,232,540
Dividends	11,271,446	11,276,964
Purchases of Company stock (note 7)	106,056	191,495
Reduction of long-term debt	966,460	956,127
	$ 36,936,159	$ 38,894,244
Increase (Decrease) in Working Capital	$ 10,967,707	$ (3,476,385)

	January 31, 1977	January 31, 1976
Increases (Decreases) in Working Capital:		
Cash and short-term investments	$ 420,481	$ (4,092,719)
Receivables	4,237,156	4,749,145
Merchandise inventories (note 1b)	5,113,201	3,835,425
Prepaid expenses	2,131,782	(693,385)
Notes payable	(2,265,000)	—
Accounts payable	1,023,541	(5,338,486)
Accrued liabilities	(1,360,059)	(1,175,024)
Income taxes	1,676,938	(1,026,570)
Current maturities of long-term debt	(10,333)	265,229
Increase (Decrease) in Working Capital	$ 10,967,707	$ (3,476,385)

See notes to financial statements on pages 26 through 33.

Consolidated Balance Sheet

ASSETS

	January 31, 1977	January 31, 1976
Current Assets:		
Cash	$ 9,323,650	$ 8,903,169
Receivables, less allowance of $1,850,000 and $1,680,000, respectively, for doubtful accounts	94,760,857	90,523,701
Merchandise inventories (note 1b)	92,753,368	87,640,167
Prepaid expenses	5,287,394	3,155,612
Total Current Assets	$202,125,269	$190,222,649
Investments in Real Estate Ventures and Hotel Venture (notes 1a, 1h, and 4)	$ 25,916,745	$ 19,768,397
Property and Equipment, at cost:		
Land	$ 22,587,470	$ 22,628,349
Buildings	147,164,683	143,874,849
Equipment	71,953,258	64,351,643
	$241,705,411	$230,854,841
Less accumulated depreciation	90,212,025	84,482,122
Net Property and Equipment	$151,493,386	$146,372,719
	$379,535,400	$356,363,765

See notes to financial statements on pages 26 through 33.

LIABILITIES

	January 31, 1977	January 31, 1976
Current Liabilities:		
Notes payable (note 3)	$ 2,265,000	$ —
Accounts payable	32,691,690	33,715,231
Accrued liabilities	35,900,331	34,540,272
Income taxes (note 1d)—		
Current	912,088	4,633,710
Deferred	12,436,033	10,391,349
Current maturities of long-term debt	966,460	956,127
Total Current Liabilities	$ 85,171,602	$ 84,236,689
Long-Term Debt, less current maturities (note 6)	$ 34,812,185	$ 22,778,645
Deferred Income Taxes (note 1d)	$ 19,077,958	$ 16,740,642
Deferred Investment Credit (note 1e)	$ 4,584,374	$ 3,539,582
Stockholders' Equity:		
Preferred Stock (note 7)—		
Authorized 1,000,000 shares of $1 par value, issuable in series; stated at redemption value:		
Series A, $2.40 cumulative dividend; 8,893 and 10,260 shares outstanding, respectively	$ 462,436	$ 533,520
Series B, $3.00 cumulative dividend; 6,700 and 7,500 shares outstanding, respectively	348,400	390,000
Common Stock—		
Authorized 20,000,000 shares of $1 par value; 9,154,971 shares issued at par value	9,154,971	9,154,971
Additional Paid-in Capital (note 7)	29,182,554	29,175,926
Retained Earnings (note 3)	199,421,824	192,494,694
	$238,570,185	$231,749,111
Less 100,906 treasury common shares, at cost	2,680,904	2,680,904
Total Stockholders' Equity	$235,889,281	$229,068,207
	$379,535,400	$356,363,765

Notes to Financial Statements

(1) Summary of Significant Accounting Policies

a. Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all subsidiaries after elimination of intercompany accounts and transactions. Investments in real estate ventures and a hotel venture are carried at cost (including capitalized interest) plus the equity of the Company's subsidiary in the ventures' net income or losses, or at estimated realizable value, whichever is lower.

b. Inventory Pricing

Substantially all merchandise inventories are valued at last-in, first-out (LIFO) cost, which is not in excess of market. If the first-in, first-out (FIFO) method had been used, inventories would have been $14,100,000 and $11,026,000 higher than reported at January 31, 1977 and January 31, 1976, respectively.

c. Property and Depreciation

Depreciation is computed on a straight-line basis over the estimated useful lives of the property and equipment for financial reporting purposes. Accelerated depreciation is used for income tax purposes. Maintenance, repairs and minor renewals are charged to expense as incurred. Significant replacements, betterments and major renewals are capitalized. The cost and accumulated depreciation of fully depreciated equipment are removed from the accounts. Gain or loss is recognized upon sale or other disposition of real estate or major units of equipment.

d. Income Taxes

The Company provides currently for income taxes applicable to all items included in the income statement regardless of when such taxes are payable. Deferred income taxes included in current liabilities arise primarily from deferred income on uncollected installment sales while long-term deferred income taxes arise from accelerated depreciation and the tax effect of certain differences between the book and tax basis of real estate and hotel venture assets. The provision for income taxes consists of the following (in thousands):

	Fiscal Year	
	1976	1975
Taxes currently payable—		
Federal	$ 7,275	$ 9,084
State	728	1,171
Deferred investment tax credit	1,045	1,549
Deferred taxes (including nominal amounts of state income taxes) arising from—		
Uncollected installment sales	1,633	984
Accelerated depreciation	1,712	1,881
Real estate ventures and hotel venture	626	3,222
Other	411	(36)
	$13,430	$17,855

The difference between the provision for Federal income taxes and the amount derived by applying the 48% statutory Federal income tax rate to pre-tax income in 1976 was a reduction equal to 5.5% of pre-tax income, of which 4.5% resulted from the effect of the capital gains tax rate on the sale of interests in joint ventures and the land sale, and in 1975 was not significant.

e. Investment Tax Credit

Investment tax credits of $1,516,000 and $1,868,000 for 1976 and 1975, respectively, have been deferred and are being amortized as a reduction of the income tax provisions over the depreciable lives of the related equipment. Such amortization was $471,000 and $319,000 for 1976 and 1975, respectively.

f. Retirement Plans

The retirement plans cover, subject to certain age and service requirements, substantially all employees. It is the Company's present policy to charge income annually with the cost of pensions earned by employees during the year. For the plan covering most employees, the charge in 1976 and 1975 included interest on the unfunded actuarial liability and in 1976 also included amortization of the unfunded actuarial liability over 30 years. The assets of the plan as of January 31, 1977 exceeded the computed value of the vested benefits as of the date of the most recent valuation available. Consolidated retirement plan expense was $3,554,000 and $3,125,000 for 1976 and 1975, respectively. The Company's policy is to fund currently each year's total expense. Amendments to the plans adopted to conform to the Employee Retirement Income Security Act of 1974, and certain changes in the actuarial assumptions used to determine funding liability under the plans, did not have a significant effect upon the consolidated cost of the plans, periodic funding of pension costs, or unfunded vested benefits.

g. Store Pre-Opening Expenses

Store pre-opening expenses are charged to income in the year the expenses are incurred.

h. Interest Capitalization

Mafco, Inc., a wholly-owned subsidiary, has consistently followed the policy of capitalizing interest on its equity investments in real estate joint ventures (essentially represented by the cost of land) during their development periods, but limited to amounts estimated to be realizable, in order to match such interest costs with subsequent revenues.

Net income would have been increased in 1976 by $97,000 and reduced in 1975 by $374,000 if interest had been charged to expense as incurred. Capitalized interest is amortized over the term that major department stores have committed to operate in shopping centers and Water Tower Place, or is charged to income as properties are sold.

i. Finance Charges and Credit Losses

Customer finance charges are computed on the monthly receivable balance and are recorded as income when billed. The income and related expenses are reflected in cost of goods sold and expenses in the accompanying consolidated statement of income. The amount of revenue from customer finance charges was $5,655,000 in 1976 and $5,152,000 in 1975.

Provisions for credit losses on customer accounts are made in amounts required to maintain adequate allowances to cover estimated losses. Accounts are charged to the allowance for doubtful accounts if the balance is not paid within a specified period of time or if other information indicates uncollectibility.

(2) Total costs as reported to the Securities and Exchange Commission are classified as follows:

	Fiscal Year	
	1976	1975
Cost of goods sold, including buying and occupancy expenses	$435,663,311	$405,477,354
Selling, general and administrative expenses	142,643,438	127,796,774
Interest expense	2,233,270	1,515,760
Interest income	(25,324)	(216,777)
Interest capitalized	(11,607)	(718,761)
	$580,503,088	$533,854,350

(3) In January 1977 the Company entered into a Revolving Credit and Term Loan Agreement with a group of banks for revolving credit up to a maximum of $40,000,000 until December 31, 1979, with interest at the prime rate. As of January 31, 1977, the Company has not borrowed under the Agreement. On December 31, 1979, the Company, at its option, may borrow up to $40,000,000 under the term loan. The term loan will be payable in installments with a final maturity on December 30, 1983, and will bear interest at ½ of 1% above the prime rate. The Agreement contains various covenants including a provision relating to the payment of dividends or purchase, redemption or retirement of capital stock of the Company. As of January 31, 1977, $20,889,000 of retained earnings was available for dividends and capital stock transactions as provided under the Agreement. Similar provisions under the terms of the Company's long-term debt agreement for 3¾% notes are less restrictive.

The Company also has bank lines of credit amounting to $15,000,000 at the prime lending rate.

In most instances the Company's operating balances are used to support the banking activity and as compensating balances for the Revolving Credit and Term Loan Agreement and lines of credit. Typically such balances, as shown on the books of the banks, on average are maintained at a minimum of 10% of the credit. During 1976 and 1975, the maximum short-term debt outstanding consisting of commercial paper was $41,095,000 and $23,310,000, respectively. The average annual amount of short-term debt outstanding was $22,384,000 in 1976 and $4,930,000 in 1975. The average rate of interest paid on this debt was 5.4% in 1976 and 6.1% in 1975, based on interest paid and the average debt outstanding. It is the Company's policy to maintain at all times unused credit commitments consisting of revolving credit and bank lines equal to or exceeding the amount of commercial paper outstanding.

(4) Mafco, Inc., a wholly-owned consolidated subsidiary, is a co-venturer in the Water Tower Place real estate joint venture and the Ritz-Carlton Water Tower hotel joint venture.

Water Tower Place (½ Mafco interest) is an urban center on North Michigan Avenue in Chicago which includes a department store leased to the Company, other retail facilities, offices, condominium apartments and a hotel. Portions of the retail facilities, office space and hotel were completed and tenants began operations in the latter part of 1975.

Ritz-Carlton Water Tower (½ Mafco interest) is a venture organized to lease, furnish and operate the Ritz-Carlton hotel in Water Tower Place. The hotel began operations in December 1975.

In December 1976, Mafco sold its two-thirds interest in the Hawthorn Center venture, a shopping center in Vernon Hills, Illinois; its one-third interest in the Orland Park Venture, a shopping center and complementary land development in Orland Park, Illinois and its one-third interests in the New Century Town and Westbrook ventures, complementary land developments adjacent to Hawthorn Center and the Fox Valley shopping center in Aurora, Illinois, respectively, to its co-venturer Urban Investment and Development Co., a subsidiary of Aetna Life and Casualty Company. Under the terms of the sale, Urban paid Mafco cash for its interests and assumed all obligations of these ventures. The sale resulted in a pre-tax gain of $2,943,000 or $.29 per Marshall Field & Company common share, after taxes. This sale in no way affects the Company's ownership of the land and buildings that comprise the Marshall Field & Company stores in the Hawthorn, Orland Square and Fox Valley shopping centers, nor does it affect Mafco's interests in the Water Tower Place and Ritz-Carlton Water Tower ventures.

In 1975, New Century Town recorded a provision for losses on sales of developed land in the amount of $4,500,000, including estimated possible future losses of $3,825,000 (Mafco's share $1,275,000). In addition, Mafco provided $671,000, representing interest capitalized in prior years, to reduce its investment in this joint venture to estimated realizable value. These provisions were based upon a review of development costs and related market information.

The combined financial position of the real estate joint ventures and the hotel joint venture as of December 31, 1976 and 1975 and the results of their operations for the years then ended are summarized below:

COMBINED BALANCE SHEET (in thousands)

	December 31	
	1976	**1975**
Assets		
Property, at lower of cost or estimated realizable value—		
Property held for sale—		
Water Tower Place condominiums	$ 38,638	$ 35,489
Land, less allowance for estimated possible losses of $4,500,000 in 1975	—	30,852
	$ 38,638	$ 66,341
Commercial rental and hotel property, net of accumulated depreciation	131,654	137,784
Property under development	—	24,998
Deferred expenses	8,101	4,694
Cash, accounts and notes receivable and other assets	6,630	7,933
	$185,023	$241,750
Liabilities and Venturers' Capital		
8½% long-term first mortgage loan	$ 93,500	$ —
8¾% long-term first mortgage loan	—	20,876
Development and construction loans from (see comments below)—		
Interim bank loan, at 114% of prime rate	37,500	—
Venturers, at prime rate plus 1.8% to 2%	—	45,438
Banks, at prime rate plus 2%	—	124,670
Accounts and retentions payable	6,727	12,854
Accruals and other liabilities	8,172	6,261
Total liabilities	$145,899	$210,099
Venturers' capital—		
Mafco, Inc.	$ 19,562	$ 14,079
Other venturers	19,562	17,572
Total venturers' capital	$ 39,124	$ 31,651
	$185,023	$241,750

COMBINED RESULTS OF OPERATIONS (in thousands)

	Year Ended December 31	
	1976	**1975**
Profit from operations and sales of real estate, before interest	$ 574	$ 1,020
Provision for estimated possible losses on sales of real estate	—	(4,500)
Interest expense	(17,237)	(13,152)
Interest capitalized or deferred	11,709	11,247
Total combined loss of ventures	$ (4,954)	$ (5,385)
Mafco's results from ventures:		
Equity in above combined loss—		
Venture interests continuing	$ (2,304)	$ (2)
Venture interests sold in 1976	(235)	(2,070)
1975 provision to reduce investment in a joint venture to estimated realizable value	—	(671)
	$ (2,539)	$ (2,743)
Gain on sale of interests in ventures	2,943	—
Income (loss) from ventures, before income taxes	$ 404	$ (2,743)

Mafco's investment in real estate ventures and the hotel venture in the accompanying Marshall Field & Company consolidated balance sheet as of January 31, 1977 of $25,916,745 is comprised of its equity in joint ventures of $19,561,881, capitalized interest on its equity investment of $2,674,140 and an investment in land being held for future development of $3,680,724.

The total cost of Water Tower Place is estimated to be $192,000,000, of which $175,900,000 has been incurred as of December 31, 1976. In November 1976, Water Tower Place completed financing arrangements which replaced the previous $130,000,000 construction loan. The financing consists of an 8½% long-term mortgage loan of $93,500,000 from two insurance companies and an interim bank loan of $37,500,000, of which $7,500,000 is due in October 1977 and $30,000,000 is due in May 1978. The long-term mortgage covers all of Water Tower Place other than the condominium apartments and is not guaranteed by Mafco. The condominiums are being financed by the interim bank loan which is jointly and severally guaranteed by Mafco and its co-venturer. The venture intends to apply a portion of the future net proceeds of sales of condominiums in reduction of the interim bank loan.

Water Tower Place contains 260 condominium units with an estimated aggregate sales value of $55,300,000 which approximates estimated total cost through completion and sale of all units. As of March 25, 1977, 104 units have been sold. To protect against the contingency that all condominiums may not be sold by May 31, 1978, the maturity date of the interim bank loan, Mafco and its co-venturer have each arranged stand-by financing for up to $15,000,000 to be applied in discharge of the interim bank loan. If used, the $15,000,000 of financing arranged by Mafco would be repaid from proceeds of condominium sales with any remaining balance to be repaid at maturity in 1980.

Water Tower Place is audited by other public accountants. Their opinion on the venture's financial statements as of December 31, 1976 was "subject to the possible effects" of a provision for some loss which may be required in the future if actual conditions related to the condominium phase of the project vary adversely from those estimated by the Venture. In evaluating the recovery of costs incurred in completing the condominium project, it was necessary to estimate future market conditions, interest rates and the sell-out period. Based upon a computation of net realizable value of the condominium project using various combinations of reasonable assumptions, the result ranged from profits of $1,000,000 to losses of $1,500,000. The computation excludes the Venture's possible recovery of approximately $1,500,000 (including $740,000 held in retention by the Venture) of alleged damages arising from faulty construction work by a sub-contractor, of which a significant portion would be attributed to the condominiums. The recovery is subject to litigation involving the Venture, the general contractor and the sub-contractor. The Venture is of the opinion, based upon the Venture's present understanding of the facts, that the $1,500,000 will be recovered.

The estimated cost of the hotel furnishings and the development and pre-opening expenses for Ritz-Carlton Water Tower is $15,000,000, of which $14,200,000 had been expended as of December 31, 1976.

Management estimates that Mafco may be required to make up to approximately $5,000,000 of additional capital contributions by the end of 1980 to finance Water Tower Place and Ritz-Carlton Water Tower, excluding any interim investment which may be needed to finance unsold condominiums.

Under all joint venture financing, Marshall Field & Company has no liability other than its investment in Mafco and certain non-material obligations assumed in connection with Water Tower Place.

For financial reporting purposes, the joint ventures have capitalized general development costs (consisting principally of architectural, engineering and consultant fees) and carrying costs (consisting principally of interest and real estate taxes). Such costs are allocated to land and depreciable or saleable building components. Mafco's share of capitalized interest and real estate taxes and deferred start-up losses (described below) is deducted as incurred for income tax purposes.

It is the accounting policy of the ventures to defer operating losses during the start-up period, as defined, based upon the type of operations of each venture. Generally such deferral ends when either 75% of the space is leased or the first year of operations has ended, whichever occurs first.

The first year of operations for Water Tower Place retail facilities and office space ended October 31, 1976 and, accordingly, operating results after that date are no longer deferred. Operating results of the hotel were deferred from its opening in December 1975 through January 1976.

(5) As of January 31, 1977, 22 stores in operation were leased wholly or in part. In addition, certain data processing and other equipment is leased.

The retail store leases have noncancellable terms expiring between 1977 and 2028 with various renewal options. Many of these leases require the payment of minimum annual rentals plus additional rentals contingent upon sales reaching certain levels. Certain of the leases also require the payment of taxes, insurance, and other costs applicable to the property. Equipment leases have noncancellable terms expiring in 1977 and 1981 with various renewal options.

All of the retail store leases and certain of the equipment leases are considered by the Company to be noncapitalized financing leases. Such leases, as defined by the Securities and Exchange Commission, are those which are not reported as a liability in the balance sheet, but which, during the initial noncancellable lease period, either cover 75% or more of the economic life of the property or have terms which assure the lessor of a full recovery of the fair market value of the property at the inception of the lease plus a reasonable return on the use of the assets invested.

Rentals paid under leases during the past two years were as follows:

	Fiscal Year	
	1976	1975
Noncapitalized financing leases—		
Minimum rentals	$3,977,616	$2,978,518
Additional rentals based upon sales	770,480	777,380
Other leases	1,063,983	909,968
	$5,812,079	$4,665,866

The future minimum annual rental requirements on noncancellable leases in effect at January 31, 1977, which had an initial or remaining term of more than one year amounted to $86,704,352 and are shown below for the fiscal years indicated.

1977	$ 4,229,408	1980	$ 3,974,047	1987-1991	$13,608,353
1978	4,137,807	1981	3,671,946	1992-1996	11,171,291
1979	4,106,476	1982-1986	15,389,301	After 1996	26,415,723

The above rentals exclude real estate taxes, insurance, maintenance and other costs which are applicable to leased property and which are paid directly by the Company and its subsidiaries rather than the lessors.

The present values of future minimum annual rental requirements under noncapitalized financing leases (excluding estimated amounts of real estate taxes, insurance, maintenance and other costs applicable to the leased property) were approximately $31,700,000 at January 31, 1977 and $29,900,000 at January 31, 1976. Of these amounts, approximately $28,600,000 in 1977 and $28,000,000 in 1976 were applicable to retail store leases with the balances applicable to equipment. Future annual rentals for the Company's store at Water Tower Place are included in the present values for 1977 and 1976 in the amounts of $13,400,000 and $13,500,000, respectively, and are included in the minimum annual rentals shown above. The Water Tower Place store is leased from a joint venture in which Mafco, Inc., the Company's wholly-owned subsidiary, has a 50% interest. The present values were calculated using the estimated interest rates implicit in the individual leases which ranged from 4⅛% to 10% with the weighted average rate being 7½%.

Had noncapitalized financing leases been capitalized, the effect on income for 1976 and 1975 would have been immaterial.

(6) The Company's long-term debt consists of:

	January 31	
	1977	1976
3¾% notes, payable $800,000 annually to 1981 and $15,000,000 in 1982	$18,200,000	$19,000,000
8% mortgage note, payable quarterly to 1995	2,520,485	2,585,009
5½% note, payable quarterly to 1986	1,091,700	1,193,636
Commercial paper	13,000,000	—
	$34,812,185	$22,778,645

The commercial paper of $13,000,000 is classified as long-term because the Company intends to continue using this type of financing in this amount for an uninterrupted period in excess of one year, and because the commercial paper is supported by the Revolving Credit and Term Loan Agreement described in note 3. In the event that $13,000,000 of commercial paper is refinanced under the Agreement, payments for 1980-1982 would be $1,156,000 annually, with $9,532,000 due in 1983.

The aggregate minimum payments required on long-term debt (excluding commercial paper) in each of the five fiscal years following the fiscal year 1976 are shown below:

1977	$ 966,000	1979	$ 989,000	1981	$1,015,000
1978	978,000	1980	1,002,000		

(7) Transactions in the preferred stock and additional paid-in capital accounts are summarized below:

	Preferred Stock				Additional Paid-in Capital
	Series A		Series B		
	Shares	Amount	Shares	Amount	
January 31, 1975	11,486	$597,272	10,200	$530,400	$29,165,090
Purchased for treasury	(1,226)	(63,752)	(2,700)	(140,400)	12,657
Excess of cost over option price of common stock option exercised					(1,821)
January 31, 1976	10,260	$533,520	7,500	$390,000	$29,175,926
Purchased for treasury	(1,367)	(71,084)	(800)	(41,600)	6,628
January 31, 1977	8,893	$462,436	6,700	$348,400	$29,182,554

(8) A lawsuit is pending in Ohio against Halle's which purports to be a class action, attacking the legality of certain credit and billing practices. The ultimate consequences of this action to the Company are not presently determinable, but management does not anticipate that recovery from Halle's thereunder, if any, will have a material adverse effect on the business or consolidated financial position of the Company.

(9) Under the 1974 Incentive Stock Option Plan, officers and other key executives of the Company or its subsidiaries may receive options to purchase common shares at 100% of the fair market value of the shares at dates of grant. All options granted under the Plan expire ten years from date of grant. The options granted become exercisable in cumulative equal amounts of 20% in the second through sixth years following the dates of grant. At January 31, 1976, options were outstanding on 146,200 shares at $20.50 to $22.87½ per share; 28,200 were exercisable at $20.50 per share and 153,500 shares were available for future grants. During the year ended January 31, 1977, options were granted for 7,000 shares at $21.50 per share and cancelled for 9,700 shares at $20.50 per share. At January 31, 1977, options were outstanding on 143,500 shares at $20.50 to $22.87½ per share; 54,500 and 800 were exercisable at $20.50 and $22.87½ per share, respectively, and 156,200 shares were available for future grants.

(10) Selected quarterly financial data (in thousands) for the year ended January 31, 1977 (unaudited):

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Net Sales	$124,366	$134,287	$152,014	$199,257	$609,924
Gross Margin (after cost of sales and buying and occupancy expenses)	32,888	36,418	45,059	59,896	174,260
Net Income	180	1,347	4,190	12,481(1)	18,199
Net Income Per Common Share	.02	.15	.46	1.38(1)	2.01

(1) Includes gain on sale of interests in ventures of $2,653,000, or 29 cents per share (note 4), and gain on sale of land of $1,228,000, or 14 cents per share.

(11) Current Replacement Cost Information (Unaudited):

The accompanying financial statements were prepared on an historical cost basis; that is, amounts represent costs actually incurred. Current replacement cost of certain assets, principally inventory and property and equipment, exceeds historical cost. However, the Company has generally been able to compensate for such cost increases by maintaining a reasonably constant gross margin, after cost of sales and buying and occupancy expenses, as a per cent of sales.

The replacement cost of inventory, which is stated in the financial statements on a LIFO basis, is approximately equal to the cost of inventory priced on a FIFO basis.

Replacing property and equipment having the productive capacity comparable to present facilities would require a greater capital investment than the historical cost presented in the financial statements. The additional capital investment would result from the cumulative impact of inflation offset to some extent by technological improvements in construction and design.

The Company's annual report on Securities and Exchange Commission Form 10-K (a copy of which will be available upon request) will contain specific information with respect to year-end 1976 estimated replacement cost of inventories and productive capacity (store facilities, warehouses, equipment and fixtures) and the estimated effect which replacement cost would have had on the computation of cost of sales and depreciation for the year 1976.

Auditors' Report

ARTHUR ANDERSEN & CO.

To the Stockholders of Marshall Field & Company:

We have examined the consolidated balance sheet of Marshall Field & Company (a Delaware corporation) and subsidiaries as of January 31, 1977 and 1976 and the related consolidated statements of income and retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of income and retained earnings and changes in financial position present fairly the financial position of Marshall Field & Company and subsidiaries as of January 31, 1977 and 1976 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

April 1, 1977
Chicago, Illinois

Arthur Andersen & Co.

Board of Directors

JEAN ALLARD, Partner, Sonnenschein Carlin Nath & Rosenthal (attorneys)

HARRY O. BERCHER, Retired Chairman of the Board, International Harvester Company (manufacturer of trucks, and farm and construction equipment)

EDWARD McC. BLAIR, Managing Partner, William Blair & Company (investment bankers)

JOHN M. BUDD, Director and former Chairman of the Board, Burlington Northern Inc. (rail transportation)

JOSEPH A. BURNHAM, President, Marshall Field & Company

ALBERT B. DICK III, Chairman, A. B. Dick Company (manufacturer and marketer of copying, duplicating and printing equipment, supplies and service)

ARTHUR E. OSBORNE, Senior Vice President, Marshall Field & Company

HOWARD M. PACKARD, Retired Chairman and President, S. C. Johnson & Son, Inc. (manufacturer of Johnson waxes and other household, industrial and recreational products)

GEORGE G. RINDER, Executive Vice President, Marshall Field & Company

JOHN M. SIMPSON, Chairman of the Board, A. M. Castle & Co. (distributors and processors of steel and other metals)

GERALD A. SIVAGE, Director and former President, Marshall Field & Company

HAROLD BYRON SMITH, JR., President, Illinois Tool Works Inc. (manufacturer of fasteners, tools, electronic components and plastic packaging products)

Executive Committee

GERALD A. SIVAGE, Chairman
EDWARD McC. BLAIR
JOHN M. BUDD
JOSEPH A. BURNHAM

Audit Committee

HOWARD M. PACKARD, Chairman
EDWARD McC. BLAIR
HAROLD BYRON SMITH, JR.

Compensation Committee

ALBERT B. DICK III, Chairman
HARRY O. BERCHER
GERALD A. SIVAGE
HAROLD BYRON SMITH, JR.

Corporate Officers

JOSEPH A. BURNHAM	President
GEORGE G. RINDER	Executive Vice President
ARTHUR E. OSBORNE	Senior Vice President
JOHN A. KROYER	Vice President and Comptroller
PAUL R. OBERT	Vice President—Law and Secretary
JAMES E. RYAN	Vice President—Finance and Treasurer
ROBERT L. PATERSON	Vice President
HOWARD S. ALLEN	Assistant Comptroller—Taxes
JOHN A. BERNAUER	Assistant Comptroller
MARY CELESTE HIGGINS	Assistant Secretary
HERBERT W. NICHOLS	Assistant Secretary

Vice Presidents of Corporate and Subsidiary Divisions

Chicago Stores

ARTHUR E. OSBORNE	General Manager
ROBERT I. MULLEN	General Merchandise Manager
JERRY M. SOCOL	General Merchandise Manager
LOREN A. DuBOIS	General Operating Manager

RAYMOND A. ALLEN
DENMAN H. BOYD
AUREL CAPRINI
LELAND C. CARSTENS
PHILIP G. DIBBLE
EDMUND J. DOERING
CARL D. GULDAGER
ROBERT S. HOUSTON
HORTON H. KELLOGG
W. KENNETH MacARTNEY
EVA JANE MILLIGAN
W. THOMAS POYER
HARRY A. ROOT
HOMER SHARP
CONNOR B. SHAW
REED F. TAYLOR
H. JOHN TOOMIRE
GENEVIEVE URBAIN
LESLIE L. WATERS

Frederick & Nelson

ROBERT L. PATERSON	General Manager
RICHARD A. DOSS	General Merchandise Manager
E. LAMONT McDONALD	General Operating Manager

ROBERT A. BOYD
LAWRENCE D. MOORE

Halle's

ROBERT M. RASMUSSEN	General Manager
ROBERT B. CARLSON	General Merchandise Manager
PAUL BRISK	General Operating Manager

EDWARD H. RYAN
ROBERT S. SCHUG

The Crescent

H. WILLIAM BACON	General Manager
JAMES G. ARGITES	General Operating Manager
CARL R. JONES	General Merchandise Manager

HARRY E. FUHS

Corporate Administration

ROGER E. GLASSON	Real Estate
H. DARRYL HOFFMAN	Information Systems

Transfer Agents

CONTINENTAL ILLINOIS NATIONAL BANK
AND TRUST COMPANY OF CHICAGO
Chicago

MORGAN GUARANTY TRUST COMPANY
OF NEW YORK
New York

Registrars

THE FIRST NATIONAL BANK OF CHICAGO
Chicago

BANKERS TRUST COMPANY
New York

The First Place, shown at right, is a compelling new feature of the remodeled main floor of the Chicago State Street store. It is an exciting and inviting setting for the contemporary sportswear and accessories important in the lifestyle of today's woman.

ELIZABETH ARDEN